

KENTUCKY STATE PROPERTY AND BUILDINGS COMMISSION
MINUTES
FEBRUARY 15, 2010

The Kentucky State Property and Buildings Commission ("SPBC" or the "Commission") was called to order on Monday, February 15, 2010 at 2:00 p.m. in Room 182 of the Capitol Annex by Lori Flanery, Deputy Secretary, Finance and Administration Cabinet as proxy for Jonathan Miller, Secretary, Finance and Administration Cabinet. Other members present were Lisa Cox, proxy for Edgar C. Ross, Executive Director, Office of the Controller, Finance and Administration Cabinet, Mary Lassiter, State Budget Director, Katie Smith, proxy for Larry Hayes, Secretary, Cabinet for Economic Development, and Bill Burger, proxy for Lt. Governor Mongiardo.

OFM Staff Members Present: Mr. Tom Howard, Executive Director and Secretary to the Commission, Robin Brewer, Rob Ramsey, Tom Midkiff, Rachael Dever and Marcia Adams.

Other Guests Present: Shannon Morgan, Deputy Secretary, Finance and Administration Cabinet, Ryan Green, Office of the State Budget Director (OSBD), and Kristi Culpepper and Kelly Dudley from the Legislative Research Commission (LRC).

Deputy Secretary Flanery verified with staff that a quorum was present and that the press had been notified of the meeting.

A motion was made by Ms. Katie Smith and seconded by Mr. Bill Burger to approve the previous meeting minutes. Motion **CARRIED** and the minutes of the January 15, 2010 meeting were approved as written.

Deputy Secretary Flanery introduced Resolution **2010-03**:

**A RESOLUTION OF THE STATE PROPERTY AND BUILDINGS COMMISSION
OF THE COMMONWEALTH OF KENTUCKY APPROVING THE ISSUANCE OF
KENTUCKY INFRASTRUCTURE AUTHORITY WASTEWATER AND
DRINKING WATER REVOLVING FUND PROGRAM REVENUE BONDS,
SERIES 2010A IN AN AGGREGATE PRINCIPAL AMOUNT NOT TO EXCEED
\$240,000,000, BY THE KENTUCKY INFRASTRUCTURE AUTHORITY**

Mr. Tom Midkiff stated that Resolution 2010-03 is for the Kentucky Infrastructure Authority (KIA) Wastewater and Drinking Water Revolving Fund Revenue Bonds, Series 2010 A not to exceed \$240 million. The transaction will provide funds to make loans to certain governmental agencies to finance infrastructure projects consisting of water treatment facilities and to pay the cost of issuance. The proposed sale date is March 9, 2010 with a date of delivery set for April 1, 2010. Ratings have been applied for; the arbitrage yield is 3.63%; the All-In-True Interest Cost of 3.703% is projected with a call date of February 1, 2021 and a final maturity date of February 1, 2029. Average annual debt service is \$16,302,540, and total debt service is projected at \$307,031,160 with a negotiated sale. Peck, Shaffer & Williams LLP is Bond Counsel; the Managing Underwriter is Morgan Stanley; Underwriter's Counsel is Squire, Sanders, & Dempsey LLP; Trustee is U.S. Bank, N.A.; and the Financial Advisor is First Southwest Company. Mr. Tom Howard added that the sale date has been set back to the week of March 22nd to give the rating agencies time to understand the new program. Mr. Howard stated that KIA has been looking at a leveraged loan program for the past eight to ten years, and it has finally come to fruition. Ms. Mary Lassiter asked about the use of funds statement, where it stated \$130 million will be deposited to KIA for reimbursement and \$100 million will be deposited to the loan fund. Mr. Howard responded that KIA made disbursements in advance of the bond sale as well as

commitments for future payments on these projects. The deposits are to replenish these current and future disbursements. Mr. Burger made a motion to approve Resolution **2010-03** that was seconded by Ms. Katie Smith. Motion **CARRIED** and Resolution **2010-03** was **ADOPTED**.

Deputy Secretary Flanery introduced Resolution **2010-04**:

A RESOLUTION OF THE STATE PROPERTY AND BUILDINGS COMMISSION OF THE COMMONWEALTH OF KENTUCKY APPROVING THE ISSUANCE BY THE KENTUCKY HIGHER EDUCATION STUDENT LOAN CORPORATION OF: (I) STUDENT LOAN ASSET-BACKED NOTES, SERIES 2010, PURSUANT TO A GENERAL BOND RESOLUTION OR TO AN INDENTURE OF TRUST, SUPPLEMENTS THERETO AND AN AUTHORIZING RESOLUTION OF THE CORPORATION TO BE ISSUED AS SENIOR AND SUBORDINATE SUBSERIES OF FEDERALLY TAXABLE OR TAX-EXEMPT NOTES; AND (II) FUNDING NOTES PURSUANT TO A FUNDING NOTE PURCHASE AGREEMENT AND AN AUTHORIZING RESOLUTION OF THE CORPORATION TO BE ISSUED AS TAXABLE NOTES, IN A COMBINED AGGREGATE PRINCIPAL AMOUNT NOT TO EXCEED \$1,015,000,000

Mr. Midkiff stated that this is a combined resolution for the Kentucky Higher Education Student Loan Corporation (KHESLC) for an aggregate principal amount not to exceed \$1,015,000,000. The first component is \$250 million in KHESLC Series 2010-1 LIBOR Floating Rate Notes (LFRN) as a continuing restructuring of its 2004 Trust Estate. Proceeds will be used to refinance all failed auction rate securities in the 2004 Trust Fund and fund a minimal amount of student loan purchases. The proposed sale date is April 5, 2010 on the first component, with anticipated ratings of AAA from S&P and Fitch, final maturity in 2034, and gross debt service projected at \$361,677,865 with annual debt service at \$5,517,796. On any quarter interest payment date, KHESLC can exercise its option to purchase the remaining student loans in the trust, if the pool balance is 10% or less of the initial pool balance and retire the debt. The first call will be at par. Bond Counsel is Hawkins Delafield & Wood LLP; the Underwriter is Bank of America Merrill Lynch; Underwriter's Counsel is Kutak Rock LLP; and the Trustee is to be determined. There is a possibility for this to become a tax-exempt issuance.

The second component is \$765 million of Straight A Conduit financing for the 2004 trust restructuring. KHESLC will pledge \$765 million of student loan principal and accrued interest to the Federal Department of Education's sponsored taxable commercial paper conduit, Straight A funding LLC. Proceeds of \$733,400,000 from this transaction will also be used to refinance all failed auction rate securities in the 2004 trust indenture and any remaining funds will be used to fund additional student loan purchases. The sale is set for March 30th with March 31st, as the date of issuance. Anticipated ratings are AAA from S&P and Fitch, and the rate will be based on 3-month LIBOR plus 25 basis points. This will be taxable commercial paper, and the maturity will be between 2010 & 2014 based on five year commercial paper with gross debt service projected at \$850,085,000 and annual debt service at \$21,037,500. This negotiated sale (private placement) will be callable at any time. Bond Counsel is Hawkins Delafield & Wood LLP, and the Financial Advisor is Bank of America Merrill Lynch.

The Straight A Conduit program has been around since January 2009, and The Bank of New York Mellon is the trustee for that program and will also function as trustee for this portion of the new transaction. The All-In

ongoing rate differential in today's market rates is anticipated to be .74% which is an annual savings for the combined issuance of approximately \$23 million to KHESLC. Mr. Howard added that there are two pieces 1) that with the rate differential, there will be an ongoing savings on the new bonds and more importantly, 2) there is a steep discount in the purchase price of the existing bonds. This will provide the equity to fund the floating rate note trust with collateral to have sufficient ratings for obtaining a lower rate and to allow leverage against the portion of the assets that cannot transfer into the Straight A component. Mr. Howard stated that this is an enormous opportunity for KHESLC, allowing them to continue to originate student loans.

Ms. Smith made a motion to approve Resolution **2010-04** that was seconded by Mr. Burger. Motion **CARRIED** and Resolution **2010-04** was **ADOPTED**.

Deputy Secretary Flanery introduced Resolution **2010-05**:

**RESOLUTION OF THE STATE PROPERTY AND BUILDINGS COMMISSION
OF THE COMMONWEALTH OF KENTUCKY APPROVING THE ISSUANCE OF
NOT EXCEEDING \$90,000,000 KENTUCKY ECONOMIC DEVELOPMENT
FINANCE AUTHORITY MEDICAL CENTER REVENUE BONDS (ASHLAND
HOSPITAL CORPORATION, D/B/A KING'S DAUGHTERS MEDICAL CENTER
PROJECT), SERIES 2010 (THE "BONDS")**

Ms. Katie Smith reported that the Cabinet for Economic Development is requesting approval of KEDFA's Bond Resolution for the issuance of Medical Center Revenue Bonds in an amount not to exceed \$90 million on behalf of Ashland Hospital Corporation d/b/a King's Daughters Medical Center. The proceeds will be used to finance and/or reimburse the borrower for a portion of the cost to acquire, construct and equip improvements to the medical center facility located in Ashland, Kentucky. Improvements include but are not limited to the expansion of the heart and vascular center, renovating the expansion of the operating room facilities, renovating inpatient facilities, and expansion of outpatient facilities. KEDFA is a conduit financier in the transaction and will not have a general obligation or be held liable for the bonds. KEDFA approved the resolution at its January 28, 2010 meeting, and staff recommends approval.

Mr. Burger made a motion to approve Resolution **2010-05** that was seconded by Ms. Lassiter. Motion **CARRIED** and Resolution **2010-05** was **ADOPTED**.

Deputy Secretary Flanery introduced Resolution **2010-06**:

**A RESOLUTION OF THE STATE PROPERTY AND BUILDINGS COMMISSION
OF THE COMMONWEALTH OF KENTUCKY APPROVING THE
APPLICATION OF THE SECRETARY OF THE CABINET FOR ECONOMIC
DEVELOPMENT TO IDENTIFY AND SPECIFY CERTAIN ECONOMIC
DEVELOPMENT PROJECTS TO BE FINANCED FROM THE PROCEEDS OF
ECONOMIC DEVELOPMENT REVENUE BONDS TO BE ISSUED BY THE
COMMISSION TO MAKE A GRANT TO THE BOONE COUNTY FISCAL
COURT FOR THE BENEFIT OF COATING EXCELLENCE INTERNATIONAL,
INC. (COATING EXCELLENCE) (\$250,000).**

Ms. Katie Smith reported that Secretary Hayes from Cabinet for Economic Development is requesting the use of \$250,000 in Economic Development Bond Funds for the purpose of making a grant to the Boone County Fiscal Court for the benefit of Coating Excellence International LLC. The company anticipates the construction, lease and equipping of a 120,000 square foot building in Hebron, Kentucky for production and a warehouse facility. The project is anticipated to convert in-process raw materials into finished bags for bulk items, such as bird seed, pet foods, animal feeds, and store rolls of packaging for shipment. The proposed grant funds will be used to offset the cost associated with the project. Coating Excellence will be required to create 71 new, full-time jobs for Kentucky residents within three (3) years of KEDFA approval and will be required to pay those jobs an average annual wage of not less than \$17.53 per hour, excluding benefits. They will also be required to keep those jobs and wages for an additional three (3) years. Repayment provisions will be included in the grant agreement. If the company fails to create and maintain the required jobs or pay the required wages, Coating Excellence will be required to provide a letter of credit or another form of collateral satisfactory to the Cabinet as security for the grant. Coating Excellence has also been approved for up to \$750,000 from the Kentucky Industrial Development Act Program. KEDFA did approve this recommendation at its January 28, 2010 meeting, and staff recommends approval.

Mr. Burger made a motion to approve Resolution **2010-06** that was seconded by Ms. Lassiter. Motion **CARRIED** and Resolution **2010-06** was **ADOPTED**.

Deputy Secretary Flanery introduced Resolution **2010-07**:

**RESOLUTION OF THE STATE PROPERTY AND BUILDINGS COMMISSION
OF THE COMMONWEALTH OF KENTUCKY APPROVING A FIRST
AMENDMENT FOR A CERTAIN ECONOMIC DEVELOPMENT PROJECT
FUNDED FROM THE PROCEEDS OF ECONOMIC DEVELOPMENT
REVENUE BONDS ISSUED BY THE COMMISSION.**

Ms. Katie Smith reported that in June 2005, the Cabinet entered into an economic development agreement with the City of Madisonville on behalf of Land O' Frost for \$450,000 to be used to develop, construct and equip a 175,000 square foot USDA prepackaged lunch meat production facility. Under terms of the agreement, Land O' Frost is required to create a minimum of 300 new full-time jobs for Kentucky residents within three (3) years of completion and occupancy, which was certified by the company on November 5, 2006. Prior to the first compliance date of November 5, 2009, the Cabinet received a letter from the Company requesting an extension of the first monitoring date from November 5, 2009 to January 1, 2013. The City of Madisonville also sent a letter supporting the Company's request. The letter did indicate the project had been impacted by the downturn in the economy resulting in only 62 new full-time positions at the facility in early October of 2009. The Company was expecting an increase in production so that by January 1, 2013, they would be at the full employment requirement. The Cabinet sent a letter to the Company and the City proposing the recommended amendment that would extend the first compliance date by one year to November 5, 2010. The recommended amendment would also contain a provision for two additional automatic one year extensions as long as the number of new full-time positions for Kentucky residents was equal to or exceeded 140 at November 5, 2010 and 220 and November 5, 2011. Additionally, the Company will be required to extend the term of the letter of credit that is the security for the agreement to no earlier than May 5, 2016. Both the Company and the City have agreed and acknowledged the Cabinet's proposed amendment. KEDFA approved the amendment at its January 28, 2010 meeting, and staff recommends approval.

Ms. Lassiter asked if there were many similar situations as this due to the downturn of the economy. Ms. Smith answered affirmatively but stated that companies are requesting extensions and anticipate future growth to

fulfill their job creation obligations. The Cabinet is holding them to their commitment but is willing to extend to allow more time.

Mr. Burger made a motion to approve Resolution **2010-07** that was seconded by Ms. Lassiter. Motion **CARRIED** and Resolution **2010-07** was **ADOPTED**.

Deputy Secretary Flanery introduced Resolution **2010-08**:

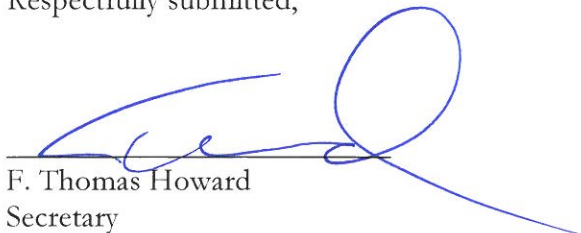
**A RESOLUTION OF THE STATE PROPERTY AND BUILDINGS COMMISSION
APPROVING A CAPITAL CONSTRUCTION PROJECT AUTHORIZED BY THE
2010 GENERAL ASSEMBLY WHERE SUCH PROJECT WILL BE FINANCED BY
THE ISSUANCE OF STATE PROPERTY AND BUILDINGS COMMISSION
REVENUE BONDS OR OTHER AUTHORIZED STATE DEBT-ISSUING
AUTHORITIES.**

Ms. Robin Brewer stated that Resolution 2010-08 is a reimbursement resolution that will allow the Department of Military Affairs to be reimbursed with bond proceeds for upfront expenditures incurred for a project that was approved in House Bill 302 by the General Assembly during the current 2010 legislative session and signed by the Governor. The project was set up on an emergency basis in order to break ground in May for the construction of a hangar at Bluegrass Station in Lexington, Kentucky. At the next meeting in April, staff will present a bond resolution for Committee approval of the upcoming financing through the State Property and Buildings Commission, Project No. 97 transaction. The transaction is for \$4 million of agency fund bonds and will be issued on a taxable basis.

Ms. Smith made a motion to approve Resolution **2010-08** that was seconded by Mr. Burger. Motion **CARRIED** and Resolution **2010-08** was **ADOPTED**.

Deputy Secretary Flanery asked if there was any other business. With no other business, the meeting stands adjourned.

Respectfully submitted,



F. Thomas Howard
Secretary